

ICI VIEWPOINTS

MAY 10, 2012

GMM Leadership Panel: Lasting Values for Challenging Times

By Mike McNamee

Helping investors cope with economic risks in Europe and the United States, select products that best meet their financial goals, and manage expectations in a turbulent environment with rising interest rates are among the top challenges for fund advisers, a panel of industry leaders told ICI's General Membership Meeting.

Opening Thursday's GMM session, Paul Haaga, former ICI Chairman and Chairman of the Board of Capital Research and Management Company, led a wide-ranging discussion of issues that are affecting managers, financial intermediaries, and investors.

- **Economic risks:** A recent survey of Fidelity Investments' high net worth investors found that "three things are keeping them from investing—the U.S. elections, the European economic crisis, and the U.S. debt ceiling—and only one of those has a fixed time to conclude," said Ronald O'Hanley, President of Asset Management and Corporate Services at Fidelity. Panelists agreed that Europe's debt and growth problems are making investors shy away from risk. "Europe is undergoing a multi-year deleveraging process," said Gregory Fleming, President of Morgan Stanley Investment Management. "There is slow progress, but it's not going to disappear from the screens anytime soon."
- **Bond investing:** Panelists agreed that the inevitable increase in interest rates could bring surprises to investors who have turned to bond funds for stability and income. "People do tend to forget that when interest rates go up, bond prices go down, and you can have capital losses," said Kenneth Olivier, Chairman and CEO, Dodge & Cox.
- **Finding solutions:** Panelists agreed that the number of funds and investment products, which has grown as product differentiation led to product proliferation, is likely to shrink in the years ahead. "Investors are overwhelmed by choice—they need to know what products make sense for the outcomes they desire," said Marie A. Chandoha, President and CEO of Charles Schwab Investment Management, Inc. "Our challenge is to create building blocks that offer solutions."
- **Fund governance:** These executives agreed that a healthy working relationship with independent directors is key to ensuring that funds serve investors. Managers and trustees "are on the same side here—we both want to provide great service to shareholders," said Olivier. O'Hanley noted that "the quality of independent directors is at an all-time high—and it needs to be. These are very tough and complicated jobs."

Mike McNamee is ICI's chief public communications officer.
